

CITY OF WAUKON
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

June 30, 2007

HAGEN & KALLEVANG, P.C.
Certified Public Accountants

CITY OF WAUKON

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CITY OF WAUKON

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dwight Jones	Mayor	December 31, 2007
Duane DeWalle	Mayor Pro Tem	December 31, 2007
Drew Hager	Council Member	December 31, 2007
Joe Cunningham	Council Member	December 31, 2009
Rodney Peterson	Council Member	December 31, 2009
Steve Wiedner	Council Member	December 31, 2009
Diane Sweeney	Clerk/Treasurer	December 31, 2007
James Garrett	Attorney	December 31, 2007
Jeff Swartz	Assistant Attorney	December 31, 2007

Hagen & Kallevang PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Waukon, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Waukon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include the primary government of the City of Waukon, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Waukon as of June 30, 2007, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Waukon as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 27, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 27 and 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hagen & Kallwang, P.C.

February 27, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Waukon provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 191.2%, or approximately \$5,140,800, from fiscal 2006 to fiscal 2007. The receipt sources with major changes from the prior year are as follows:

	Increase (Decrease)
Taxes	\$ 146,000
Grants and contributions	955,400
Bond proceeds	3,900,000
Investment earnings	25,100
Charges for services	132,700
All others, net	(18,400)
	<u>\$ 5,140,800</u>

Disbursements increased, 51.3%, or \$1,894,900, in fiscal 2007 from fiscal 2006. The disbursements with major changes from the prior year are as follows:

Public works	\$ 228,100
Health and social services	(9,000)
Debt service	75,900
Capital projects	1,598,700
All others, net	1,200
	<u>\$ 1,894,900</u>

The City's total cash basis net assets decreased 82.1%, or approximately \$2,351,200, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased approximately \$2,237,900 and the assets of the business type activities increased by approximately \$113,300.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the indebtedness of the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social service, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, state and federal grants, and debt proceeds finance most of these activities.
- Business-Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business-type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

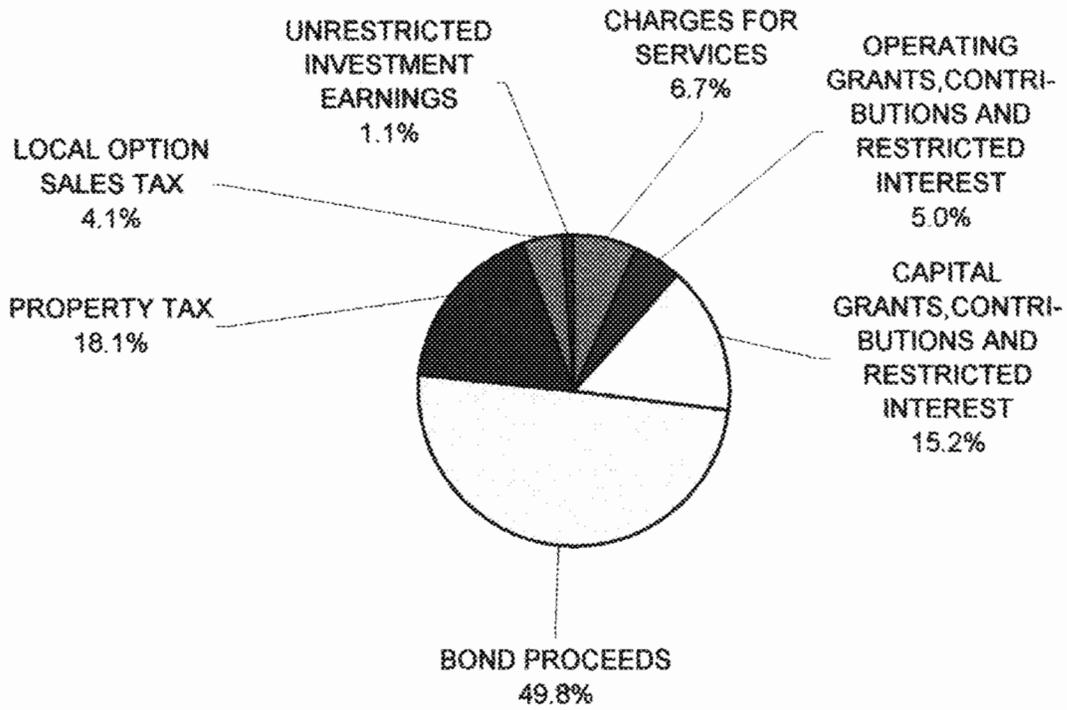
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

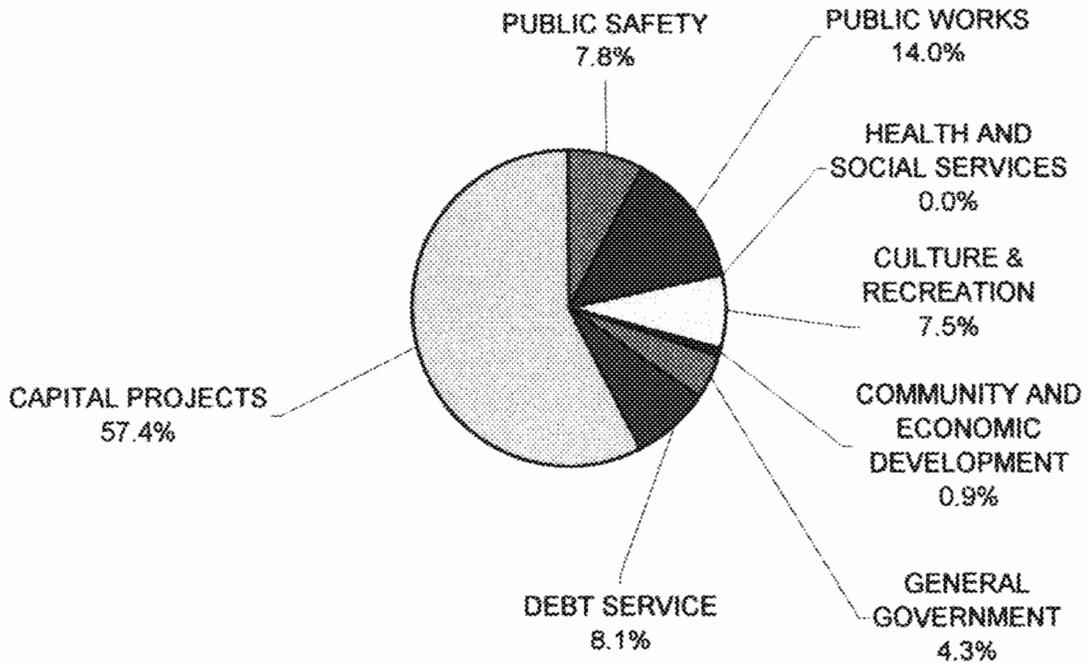
Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30,			
	2007	2006	2005	2004
Receipts and transfers:				
Program receipts:				
Charges for service	\$ 524,136	\$ 391,426	\$ 400,066	\$ 415,197
Operating grants, contributions and restricted interest	389,964	402,493	407,980	411,106
Capital grants, contributions and restricted interest	1,191,212	223,318	115,085	77,153
General receipts:				
Property tax	1,414,809	1,332,066	1,474,831	1,437,836
Local option sales tax	320,204	257,002	295,868	264,650
Grants and contributions not restricted to specific purposes	-	-	-	-
Unrestricted investment earnings	89,460	64,305	32,978	21,996
Loan proceeds	3,900,000	-	1,420,000	500,000
Other general receipts	-	7,500	27,866	27,545
Transfers, net	-	10,890	11,676	9,861
Total receipts and transfers	<u>7,829,785</u>	<u>2,689,000</u>	<u>4,186,350</u>	<u>3,165,344</u>
Disbursements:				
Public safety	434,797	438,537	363,429	526,815
Public works	778,560	550,421	544,427	465,949
Health and social services	-	9,000	9,000	9,000
Culture and recreation	420,223	422,983	365,944	384,617
Community and economic development	49,349	44,269	44,704	60,595
General government	241,774	246,945	221,971	220,089
Debt service	452,906	377,036	275,081	737,950
Capital projects	3,206,539	1,607,830	1,470,751	709,056
Transfers, net	7,751	-	-	-
Total disbursements	<u>5,591,899</u>	<u>3,697,021</u>	<u>3,295,307</u>	<u>3,114,071</u>
Increase (decrease) in cash basis net assets	2,237,886	(1,008,021)	891,043	51,273
Cash basis net assets beginning of year	1,649,412	2,657,433	1,766,390	1,715,117
Cash basis net assets end of year	<u>\$ 3,887,298</u>	<u>\$ 1,649,412</u>	<u>\$ 2,657,433</u>	<u>\$ 1,766,390</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased by \$5,140,800, which reflects an increase due to state and local grants, bond proceeds, and contributions. The total cost of all programs and services increased by approximately \$1,894,900 due to capital project costs.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,			
	2007	2006	2005	2004
Receipts and transfers:				
Program receipts:				
Charges for service				
Water	\$ 383,349	\$ 394,801	\$ 381,870	\$ 387,429
Sewer	377,679	390,595	355,316	346,257
General receipts:				
Unrestricted investment earnings	13,342	7,606	5,483	3,910
Other general receipts	-	-	46,165	67,154
Transfers, net	7,751	-	-	-
Total receipts and transfers	<u>782,121</u>	<u>793,002</u>	<u>788,834</u>	<u>804,750</u>
Disbursements and transfers:				
Water	385,944	344,239	330,143	317,016
Sewer	282,891	320,619	393,527	274,449
Transfers, net	-	10,890	11,676	9,861
Total disbursements and transfers	<u>668,835</u>	<u>675,748</u>	<u>735,346</u>	<u>601,326</u>
Increase in cash basis net assets	113,286	117,254	53,488	203,424
Cash basis net assets beginning of year	<u>1,215,786</u>	<u>1,098,532</u>	<u>1,045,044</u>	<u>841,620</u>
Cash basis net assets end of year	<u>\$ 1,329,072</u>	<u>\$ 1,215,786</u>	<u>\$ 1,098,532</u>	<u>\$ 1,045,044</u>

Total business type activities receipts and transfers for the fiscal year were \$782,121 compared to \$793,002 last year. The decrease was due primarily to a decrease in consumption charges. The cash balance increased \$113,286. Total disbursements and transfers for the fiscal year decreased by 1.0% to a total of \$668,835.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Waukon completed this year, its governmental funds reported a combined fund balance of \$3,887,298, an increase of \$2,237,886 from last year's total of \$1,649,412. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$247 in 2007 compared to the prior year of \$399,284. The cash balance at year end was \$399,037.
- The Road Use Tax Fund cash balance decreased \$95,143 from the prior year to \$166,237 due to purchase of capital equipment.
- The Urban Renewal Tax Increment Fund cash balance decreased by \$84,699 from the prior year to \$145,823. These funds were used for various projects within the urban renewal area district.
- The Local Option Sales Tax Fund was established upon approval of a referendum imposing a 1% local option sales and service tax for reconstruction/repair/replacement of existing streets and curbs, storm sewers, sanitary sewers, water mains and other structures that relate to streets. At the end of the fiscal year the cash balance was \$512,627. The city used proceeds from this fund for street improvements this year.
- The Debt Service Fund cash balance at year end was \$60,116.

- The S.E. Urban Renewal Project Fund was established as a capital project fund for projects within the urban renewal area. Funds are transferred into this fund from the Urban Renewal Tax Increment Fund to pay the cost of the project. The current project was completed during the year.
- The Wellness Center Fund was established as a capital project fund for the construction of a wellness and recreational facility including a senior citizen center. The cash balance at year end was \$2,023,084.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by \$5,624 to \$567,949. Receipts totaling \$389,755 for 2007 which had decreased by \$9,027 compared to last year's total.

The Sewer Fund cash balance increased by \$107,662 to \$761,123, due to a decrease in disbursements this fiscal year over the prior year. Receipts totaling \$384,615 for 2007 which was less by \$9,605 compared to last years total.

BUDGETARY HIGHLIGHTS

The City of Waukon expended \$3,206,539 for capital projects this fiscal year. The projects included a street light project in the Industrial Park, construction of Wellness Center and various street improvements.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$5,786,291 in bonds and other long term debt, compared to approximately \$2,202,076 from last year.

Outstanding Debt at Year-End

	Year ended June 30,			
	2007	2006	2005	2004
General obligation bonds	\$ 5,574,701	\$ 1,790,898	\$ 1,890,000	\$ 525,000
Revenue notes	-	100,000	190,000	275,000
Urban renewal tax increment financing revenue bonds	211,590	311,178	431,633	548,401
Total	<u>\$ 5,786,291</u>	<u>\$ 2,202,076</u>	<u>\$ 2,511,633</u>	<u>\$ 1,348,401</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$5,574,701 is below its constitutional debt limit of \$7,669,974.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Waukon appropriated \$6,121,576 in the budget for the fiscal year 2008. The Wellness Center construction project will be completed this fiscal year and the Center opened to the public for use in November 2007. The City of Waukon's Capital Improvements projects consists of various projects which were financed from the sale of \$400,000 General Obligation Corporate Purpose Bonds in June 2007. The projects yet to be completed are storm sewer, water line extension and manhole refurbishment. This work will commence in the Spring of 2008.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Diane Sweeney, City Clerk, City of Waukon, 101 Allamakee Street, Waukon, IA 52172 (563-568-3492).

BASIC FINANCIAL STATEMENTS

CITY OF WALKON

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2007

Functions/Programs	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities							
Public safety	\$ (434,797)	\$ 12,788	\$ 6,843	\$ -	\$ (415,166)	\$ -	\$ (415,166)
Public works	(778,560)	224,959	344,298	-	(209,303)	-	(209,303)
Health and social services	-	-	-	-	-	-	-
Culture and recreation	(420,223)	130,345	38,823	-	(251,055)	-	(251,055)
Community and economic development	(48,349)	2	-	-	(48,347)	-	(48,347)
General government	(241,774)	37,961	-	-	(203,813)	-	(203,813)
Debt service	(452,906)	110,520	-	-	(342,386)	-	(342,386)
Capital projects	(3,206,539)	7,561	-	1,191,212	(2,007,766)	-	(2,007,766)
Total governmental activities	(5,584,148)	524,136	388,964	1,191,212	(3,478,836)	-	(3,478,836)
Business type activities							
Water	(385,944)	383,349	-	-	-	(2,595)	(2,595)
Sewer	(282,891)	377,679	-	-	-	94,788	94,788
Total business type activities	(668,835)	761,028	-	-	-	92,193	92,193
Total	\$ (6,252,983)	\$ 1,285,164	\$ 388,964	\$ 1,191,212	(3,478,836)	92,193	(3,386,643)
General Receipts							
Property tax levied for							
General purposes					831,110	-	831,110
Tax increment financing					452,561	-	452,561
Debt service					131,138	-	131,138
Local option sales tax					320,204	-	320,204
Unrestricted interest on investments					89,460	13,342	102,802
Bond proceeds					3,900,000	-	3,900,000
Transfers					(7,751)	7,751	-
Total general receipts and transfers					5,716,722	21,093	5,737,815
Change in cash basis net assets					2,237,886	113,288	2,351,172
Cash basis net assets beginning of year					1,649,412	1,215,786	2,865,198
Cash basis net assets end of year					\$ 3,887,298	\$ 1,329,072	\$ 5,216,370
Cash Basis Net Assets							
Restricted							
Streets					\$ 166,237	\$ -	\$ 166,237
Urban renewal purposes					145,823	-	145,823
Debt service					-	186,088	186,088
Other purposes					3,176,201	-	3,176,201
Unrestricted					399,037	1,142,964	1,542,021
Total cash basis net assets					\$ 3,887,298	\$ 1,329,072	\$ 5,216,370

See notes to financial statements.

CITY OF WAUKON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2007

	Special Revenue					Capital Projects			Other Nonmajor Governmental Funds	Total
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	S.E. Urban Renewal Project	Wellness Center			
Receipts										
Property tax	\$ 707,744	-	\$ -	\$ -	\$ 127,466	\$ -	\$ -	\$ 98,601	\$ 931,811	
Tax increment financing collections	-	-	452,561	-	-	-	-	-	452,561	
Other city tax	23,545	-	-	320,204	3,672	-	-	3,220	350,641	
Licenses and permits	11,301	-	-	-	-	-	-	-	11,301	
Use of money and property	108,492	-	-	-	110,520	-	85,115	7,996	312,123	
Intergovernmental	41,734	344,298	-	-	-	-	1,065,930	-	1,451,962	
Charges for service	285,540	-	-	-	-	-	-	-	285,540	
Special assessments	905	-	-	-	-	-	-	2,558	3,463	
Miscellaneous	75,559	-	-	-	-	-	40,167	14,657	130,383	
Total receipts	1,254,820	344,298	452,561	320,204	241,658	-	1,191,212	125,032	3,929,785	
Disbursements										
Operating										
Public safety	363,074	-	-	-	-	-	-	71,723	434,797	
Public works	463,027	315,533	-	-	-	-	-	-	778,560	
Health and social services	-	-	-	-	-	-	-	-	-	
Culture and recreation	408,685	-	-	-	-	-	-	11,538	420,223	
Community and economic development	39,836	-	-	-	-	5,000	-	4,513	49,349	
General government	228,286	-	165,358	-	-	-	-	13,488	241,774	
Debt service	-	-	287,548	-	287,548	-	-	-	462,906	
Capital projects	-	-	288	-	-	393,205	2,629,849	183,197	3,206,539	
Total disbursements	1,502,908	315,533	165,646	-	287,548	398,205	2,629,849	284,459	5,584,148	
Excess of receipts over (under) disbursements	(248,088)	28,765	286,915	320,204	(45,890)	(398,205)	(1,438,637)	(159,427)	(1,654,363)	
Other financing sources (uses)										
Bond proceeds	-	-	-	-	-	-	3,500,000	400,000	3,900,000	
Operating transfers in	278,069	-	295,969	-	104,313	398,205	171,423	163,846	1,411,825	
Operating transfers out	(30,228)	(123,908)	(667,583)	(155,135)	-	-	(302,926)	(139,794)	(1,419,576)	
Total other financing sources (uses)	247,841	(123,908)	(371,614)	(155,135)	104,313	398,205	3,368,495	424,052	3,892,249	
Net change in cash balances	(247)	(95,143)	(84,699)	165,069	58,423	-	1,929,858	264,625	2,237,886	
Cash balances beginning of year	399,284	261,380	230,522	347,558	1,693	-	93,226	315,749	1,649,412	
Cash balances end of year	\$ 399,037	\$ 166,237	\$ 145,823	\$ 512,627	\$ 60,116	\$ -	\$ 2,023,084	\$ 580,374	\$ 3,887,298	

CITY OF WAIKON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2007

	Special Revenue				Capital Projects			Other Nonmajor Governmental Funds	Total
	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	S.E. Urban Renewal Project	Wellness Center			
Cash Basis Fund Balances Reserved	\$ -	\$ -	\$ -	\$ 60,116	\$ -	\$ -	\$ -	\$ -	\$ 60,116
Debt service Unreserved	399,037	-	-	-	-	-	-	-	399,037
General fund	-	145,623	512,627	-	-	-	196,832	-	1,021,519
Special revenue funds	166,237	-	-	-	-	2,023,084	383,542	-	2,406,626
Capital projects fund	-	-	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 399,037	\$ 145,623	\$ 512,627	\$ 60,116	\$ -	\$ 2,023,084	\$ 580,374	\$ -	\$ 3,887,298

CITY OF WAUKON

RECONCILIATION OF THE STATEMENT OF CASH
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
 GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2007

Total governmental funds cash balances (page 13)	\$ 3,887,298
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
Not applicable	<u> -</u>
Cash basis net assets of governmental activities (page 12)	<u>\$ 3,887,298</u>
Net change in cash balances (page 13)	\$ 2,237,886
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
Not applicable	<u> -</u>
Change in cash balance of governmental activities (page 12)	<u>\$ 2,237,886</u>

CITY OF WAUKON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2007

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 381,902	\$ 374,565	\$ 756,467
Miscellaneous	1,447	3,114	4,561
Total operating receipts	<u>383,349</u>	<u>377,679</u>	<u>761,028</u>
Operating disbursements:			
Business type activities	279,444	282,891	562,335
Total operating disbursements	<u>279,444</u>	<u>282,891</u>	<u>562,335</u>
Excess of operating receipts over operating disbursements	<u>103,905</u>	<u>94,788</u>	<u>198,693</u>
Non-operating receipts (disbursements):			
Interest on investments	6,406	6,936	13,342
Debt service	(106,500)	-	(106,500)
Total non-operating receipts (disbursements)	<u>(100,094)</u>	<u>6,936</u>	<u>(93,158)</u>
Excess of receipts over disbursements	3,811	101,724	105,535
Transfers			
Operating transfers in	166,521	89,502	256,023
Operating transfers out	(164,708)	(83,564)	(248,272)
Total other financing sources	<u>1,813</u>	<u>5,938</u>	<u>7,751</u>
Net change in cash balances	5,624	107,662	113,286
Cash balances beginning of year	<u>562,325</u>	<u>653,461</u>	<u>1,215,786</u>
Cash balances end of year	<u>\$ 567,949</u>	<u>\$ 761,123</u>	<u>\$ 1,329,072</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ 106,860	\$ 79,228	\$ 186,088
Unreserved	<u>461,089</u>	<u>681,895</u>	<u>1,142,984</u>
Total cash basis fund balances	<u>\$ 567,949</u>	<u>\$ 761,123</u>	<u>\$ 1,329,072</u>

See notes to financial statements.

CITY OF WAUKON

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
PROPRIETARY FUNDS

As of and for the year ended June 30, 2007

Total enterprise funds cash balances (page 16)	\$ 1,329,072
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
Not applicable	<u> -</u>
Cash basis net assets of business type activities (page 12)	<u> \$ 1,329,072</u>
Net change in cash balances (page 16)	\$ 113,286
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
Not applicable	<u> -</u>
Change in cash balance of business type activities (page 12)	<u> \$ 113,286</u>

See notes to financial statements.

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Waukon is a political subdivision of the State of Iowa located in Allamakee County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, health and social service, culture and recreation, community and economic development and general government. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, except as noted below, City of Waukon has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Waukon (the primary government) and excludes all component units. The component units discussed below are not included in the City's reporting entity for various reasons although the operational or financial relationship with the City may or may not be significant.

Excluded Component Units:

The Veterans Memorial Hospital, which was established under Chapter 392 of the Code of Iowa. The Hospital has the potential to provide specific benefits to, or impose specific burdens on the City. The Hospital is governed by an elected five-member board of trustees. The Hospital has been audited separately and the report is filed under separate cover. The financial statements can be obtained from the Hospital's administrative office.

The Waukon Economic Development Corporation and Waukon Trees Forever, are non-profit corporations but have the potential to provide specific benefits to, or impose specific burdens on the City.

CITY OF WAUKON
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

Jointly Governed Organizations - The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Allamakee County Economic Development and Tourism Commission, Allamakee County Assessor's Conference Board, Upper Explorerland Regional Housing Authority, Allamakee County Joint E911 Service Board, Solid Waste 28E Commission, and Waukon Area Fire Protection District (28E).

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Government activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

CITY OF WAUKON
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for the City's share of local option sales tax collected and disbursed by the State of Iowa.

The Debt Service fund is utilized to account for the payment of interest and principal on the City's general long term debt.

Capital Projects:

The S.E. Urban Renewal Project Fund is used to account for a revitalization project in the southeast urban renewal area of the City.

The Wellness Center is used to account for a wellness construction project that will be operated under a 28E arrangement.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting (continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Even though allowed by statute, the City's investment policy only allows the following: interest bearing savings, money market, and checking accounts at any bank, savings and loan association or credit union in the State of Iowa. Obligations of the United States government, its agencies and instrumentalities and certificates of deposit and other evidence of deposit at federally insured Iowa depository institutions are also eligible.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature with 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2007

NOTE 3 – BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2008	313,392	\$ 242,725
2009	280,690	227,577
2010	293,098	213,811
2011	310,620	199,395
2012	323,264	184,229
2013 - 2017	1,340,554	725,963
2018 - 2022	1,438,198	442,076
2023 - 2026	1,274,885	123,137
	<u>\$ 5,574,701</u>	<u>\$ 2,358,913</u>

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Total	
	Principal	Interest	Principal	Interest
2008	\$ 103,670	\$ 8,676	\$ 417,062	\$ 251,401
2009	107,920	4,424	388,610	232,001
2010	-	-	293,098	213,811
2011	-	-	310,620	199,395
2012	-	-	323,264	184,229
2013 - 2017	-	-	1,340,554	725,963
2018 - 2022	-	-	1,438,198	442,076
2023 - 2026	-	-	1,274,885	123,137
	<u>\$ 211,590</u>	<u>\$ 13,100</u>	<u>\$ 5,786,291</u>	<u>\$ 2,372,013</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

CITY OF WAUKON
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2007

NOTE 3 – BONDS AND NOTES PAYABLE (continued)

One general obligation bearer bond issued in 1976 in the amount of \$10,000 remains outstanding as of June 30, 2007. Efforts by the City to ascertain the identity of the bondholder have not been successful.

The City had agreed to guarantee payments on a contract to purchase land by Waukon Economic Development Corporation within the City's urban renewal area. The contract was for ten years ending December 1, 2006. The City had advanced \$357,442. The City's guarantee was up to \$360,000.

NOTE 4 - PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$51,500, \$49,640, and \$45,973 respectively, equal to the required contributions for each year.

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Vacation	\$ 36,958
Sick Leave	98,332
Total	<u>\$ 135,290</u>

Sick leave is forfeited if not used by the employee before termination. Upon retirement an employee is eligible for payment of 50% of the unused sick leave. This liability has been computed based on rates of pay in effect at June 30, 2007.

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2007

NOTE 6 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

	<u>Transfer In</u>		<u>Transfer Out</u>
General		General	
Library	\$ 21,594	General	\$ 6,132
Self Insurance	6,132	General	549
Ambulance	5,500	General	5,500
Capital Equipment	<u>237,331</u>	General	664
	270,557	General	3,500
		Self Insurance	4,381
Self Insurance	<u>1,380</u>	Self Insurance	9,502
			<u>\$ 30,228</u>
Self Insurance	2,568	Special Revenue:	
Self Insurance	<u>3,564</u>	Road Use Tax	\$ 122,528
	6,132	Road Use Tax	1,380
	<u>\$ 278,069</u>		<u>\$ 123,908</u>
Special Revenue			
Urban Renewal Increment	\$ 7,561	Urban Renewal Increment	\$ 398,205
Urban Renewal Increment	<u>288,408</u>	Urban Renewal Increment	97,793
	<u>\$ 295,969</u>	Urban Renewal Increment	162
		Urban Renewal Increment	171,423
Debt Service	\$ 6,520		<u>\$ 667,583</u>
Debt Service	<u>97,793</u>		
	<u>\$ 104,313</u>	Local Option Sales Tax	<u>\$ 155,135</u>
Capital Projects		Capital Projects	
S.E. Urban Renewal Project	<u>\$ 398,205</u>	Wellness Center	\$ 288,408
		Wellness Center	6,520
Wellness Center	<u>\$ 171,423</u>	Wellness Center	8,000
Special Revenue-non major			<u>\$ 302,928</u>
Library Memorial	\$ 549	Special Revenue-non major	
Wellness Center	<u>8,000</u>	Library Memorial	<u>\$ 20,930</u>
Capital Projects-non major		Capital Projects-non major	
Gundersen Project	162	Gundersen Project	7,561
Street Improvements	<u>155,135</u>	Capital Equipment	111,303
	155,297		118,864
	<u>\$ 163,846</u>		<u>\$ 139,794</u>
Enterprise		Enterprise	
Water	\$ 4,381	Water	\$ 2,568
Debt Retirement	97,140	Water	97,140
O & M Maintenance	50,000	Water	50,000
Capital Equipment	15,000	Water	15,000
	<u>\$ 166,521</u>		<u>\$ 164,708</u>
Sewer	\$ 9,502	Sewer	\$ 3,564
O & M Maintenance	60,000	Sewer	60,000
Capital Equipment	20,000	Sewer	20,000
	<u>\$ 89,502</u>		<u>\$ 83,564</u>
Total	<u>\$ 1,667,848</u>		<u>\$ 1,667,848</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2007

NOTE 7 - RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials or employees totaling \$1,561 during the year ended June 30, 2007.

NOTE 8 - LEASES

The City leases space for equipment for wireless communication on top of City Hall for \$120 per year. The City received \$120 during the year ended June 30, 2007.

The City in October 2002 entered into a 25 year agreement to allow a Company the right to maintain an antenna on the City's water tower and other equipment on City property. In exchange the City would receive free high speed internet connection e-mail for a certain number of computers located at City Hall.

NOTE 9 - SELF FUNDING

The City has established a partially self funded group medical plan. The plan allows the City lower monthly premiums for coverage in exchange for the potential of claims actually filed. If all the covered individuals submitted the maximum claim to be paid by the City, the total would be estimated at \$30,073.

NOTE 10 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 - LITIGATION

The City has been named on several claims concerning worker's compensation and falls on City property. The City attorney is of the opinion insurance coverage will cover the claims if needed except the deductible which would not materially affect the City.

Since the local hospital is City owned, the City has been named as one of the parties to two medical malpractice lawsuits. The lawsuit for one was dismissed in September 2007 without any payments to the party involved. However, the City may have some liability exposure for the other one. The trial for the lawsuit is scheduled for November 2008.

NOTE 12 - SUBSEQUENT EVENTS AND COMMITMENTS

The City has committed \$7,300 to a regional revolving loan fund. Cities and counties in the area and the federal government have committed a total of \$500,000. The funds will be used for economic development. After approval of an application the various governmental units will then submit their committed funds. As of June 30, 2007 no funds have been requested of the City.

The City has outstanding construction contracts of \$2,125,687 at June 30, 2007. The costs will be paid from various revenue sources available to the City.

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2007

NOTE 13 - CONTINGENCIES

The City participates in state and federal assisted grant programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2007.

NOTE 14 - GENERAL FUND BALANCE

The City has designated \$76,992 of the \$399,037 General Fund balance to be available for equipment replacement.

Required Supplementary Information

CITY OF WAUKON

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

As of and for the year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts							
Property tax	\$ 931,811	\$ -	\$ -	\$ 931,811	\$ 930,112	\$ 930,112	\$ 1,699
Tax increment financing collections	452,561	-	-	452,561	441,000	441,000	11,561
Other city tax	350,641	-	-	350,641	288,457	288,457	62,184
Licenses and permits	11,301	-	-	11,301	11,600	11,600	(299)
Use of money and property	312,123	13,342	-	325,465	37,545	37,545	287,920
Intergovernmental	1,451,962	-	-	1,451,962	1,150,836	1,150,836	301,126
Charges for service	285,540	756,467	-	1,042,007	933,100	933,100	108,907
Special assessments	3,463	-	-	3,463	23,000	23,000	(19,537)
Miscellaneous	130,383	4,561	-	134,944	746,800	746,800	(611,856)
Total receipts	3,929,785	774,370	-	4,704,155	4,562,450	4,562,450	141,705
Disbursements							
Public safety	434,797	-	-	434,797	459,708	459,708	(24,911)
Public works	778,560	-	-	778,560	885,749	885,749	(107,189)
Health and social services	-	-	-	-	9,000	9,000	(9,000)
Culture and recreation	420,223	-	-	420,223	467,112	467,112	(46,889)
Community and economic development	49,349	-	-	49,349	126,940	126,940	(77,591)
General government	241,774	-	-	241,774	364,340	364,340	(122,566)
Debt service	452,906	-	-	452,906	543,701	543,701	(90,795)
Capital projects	3,206,539	-	-	3,206,539	4,295,810	4,295,810	(1,089,271)
Business type activities	-	668,835	-	668,835	996,822	996,822	(327,987)
Total disbursements	5,594,148	668,835	-	6,262,983	8,149,182	8,149,182	(1,886,199)
Excess of receipts over (under) disbursements	(1,664,363)	105,535	-	(1,548,828)	(3,586,732)	(3,586,732)	2,037,904
Other financing sources, net	3,892,249	7,751	-	3,900,000	2,450,000	2,450,000	1,450,000
Excess of receipts and other financing sources over (under) disbursements and other financing uses	2,237,886	113,286	-	2,351,172	(1,136,732)	(1,136,732)	3,487,904
Balances beginning of year	1,649,412	1,215,786	-	2,865,198	2,459,897	2,459,897	405,301
Balances end of year	\$ 3,887,298	\$ 1,329,072	\$ -	\$ 5,216,370	\$ 1,323,165	\$ 1,323,165	\$ 3,893,205

See accompanying independent auditor's report.

CITY OF WAUKON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING

June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The City had no Internal Services or Fiduciary Funds for the year ended June 30, 2007. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The City did not need to amend its budget during the year.

The City did not exceed amounts budgeted.

Other Supplementary Information

CITY OF WAUKGON

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2007

	Special Revenue					Total
	Employee Benefits	Library Memorial	Park Memorial	Wellness Center	Capital Projects	
Receipts						
Property tax	\$ 98,601	\$ -	\$ -	\$ -	\$ -	\$ 98,601
Other city tax	3,220	-	-	-	-	3,220
Use of money and property	-	7,583	248	-	167	7,996
Special assessments	-	-	-	-	2,558	2,558
Miscellaneous	-	3,609	190	-	10,858	14,657
Total receipts	99,821	11,192	438	-	13,583	125,032
Disbursements						
Operating						
Public safety	71,723	-	-	-	-	71,723
Culture and recreation	10,396	1,142	-	-	-	11,538
Community and economic development	-	-	-	4,513	-	4,513
General government	13,488	-	-	-	-	13,488
Capital projects	-	-	-	-	183,197	183,197
Total disbursements	95,607	1,142	-	4,513	183,197	284,459
Excess of receipts over (under) disbursements	4,214	10,050	436	(4,513)	(169,614)	(159,427)
Other financing uses						
Bond proceeds	-	-	-	-	400,000	400,000
Operating transfers in	-	548	-	8,000	155,297	163,846
Operating transfers out	-	(20,930)	-	-	(118,864)	(139,794)
Total other financing sources (uses)	-	(20,381)	-	8,000	436,433	424,052
Net change in cash balances	4,214	(10,331)	436	3,487	266,819	264,625
Cash balances beginning of year	24,755	165,109	9,162	-	116,723	315,749
Cash balances end of year	\$ 28,969	\$ 154,778	\$ 9,598	\$ 3,487	\$ 383,542	\$ 580,374
Cash Basis Fund Balances						
Unreserved						
Special revenue funds	\$ 28,969	\$ 154,778	\$ 9,598	\$ 3,487	\$ -	\$ 196,832
Capital projects fund	-	-	-	-	383,542	383,542
Total cash basis fund balances	\$ 28,969	\$ 154,778	\$ 9,598	\$ 3,487	\$ 383,542	\$ 580,374

See accompanying independent auditor's report.

CITY OF WAUKON

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation Bonds								
Hospital	Sept 1, 1976	5.00 - 6.25%	\$ 800,000	\$ -	-	-	-	-
Aquatic Center Bond	Dec 1, 1996	4.60 - 5.50	800,000	405,000	-	60,000	345,000	20,555
Medical Clinic	May 20, 2005	4.65	710,000	687,949	-	23,098	664,851	31,501
Medical Clinic	May 20, 2005	4.65	710,000	687,949	-	23,099	664,850	31,502
G.O. Urban Renewal Corporate Purpose	Oct 11, 2006	3.70 - 5.00	3,500,000	-	3,500,000	-	3,500,000	97,793
Corporate Purpose	June 1, 2007	4.15 - 4.50	400,000	-	400,000	-	400,000	-
			<u>\$ 1,780,898</u>	<u>\$ 3,900,000</u>	<u>\$ 106,197</u>	<u>\$ 5,574,701</u>	<u>\$ 181,351</u>	
Revenue Bonds								
Water	June 1, 1992	5.60 - 6.505%	\$ 975,000	\$ 100,000	-	\$ 100,000	\$ -	\$ 6,500
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds								
Series 2004	June 24, 2004	4.10%	\$ 250,000	\$ 155,589	-	\$ 49,794	\$ 105,795	\$ 6,379
Series 2004	June 24, 2004	4.1	250,000	155,589	-	49,794	105,795	6,379
			<u>\$ 311,178</u>	<u>\$ -</u>	<u>\$ 99,588</u>	<u>\$ 211,590</u>	<u>\$ 12,758</u>	

See accompanying independent auditor's report.

CITY OF WAUKON
BOND AND NOTE MATURITIES

June 30, 2007

GENERAL OBLIGATION BONDS

Year Ending June 30,	Aquatic Center Issued Dec 1, 1996		Medical Clinic Issued May 20, 2005		Medical Clinic Issued May 20, 2005		G.O. Urban Renewal Corporate Purpose Issued Oct 11, 2006		Corporate Purpose Issued June 1, 2007	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2008	5.00%	\$ 60,000	4.62%	24,196	4.62%	24,196	5.00%	125,000	4.50%	80,000
2009	5.05	65,000	4.62	25,345	4.62	25,345	5.00	130,000	4.50	35,000
2010	5.10	70,000	4.62	26,549	4.62	26,549	5.00	135,000	4.50	35,000
2011	5.15	75,000	4.62	27,810	4.62	27,810	4.90	140,000	4.50	40,000
2012	5.20	75,000	4.62	29,132	4.62	29,132	4.50	150,000	4.50	40,000
2013	-	-	4.62	30,515	4.62	30,515	4.50	155,000	4.50	40,000
2014	-	-	4.62	31,965	4.62	31,965	4.50	160,000	4.15	40,000
2015	-	-	4.62	33,483	4.62	33,483	4.50	165,000	4.20	45,000
2016	-	-	4.62	35,074	4.62	35,074	3.70	175,000	4.25	45,000
2017	-	-	4.62	36,740	4.62	36,740	3.75	180,000	-	-
2018	-	-	4.62	38,485	4.62	38,485	3.80	185,000	-	-
2019	-	-	4.62	40,314	4.62	40,314	3.83	195,000	-	-
2020	-	-	4.62	42,229	4.62	42,229	3.85	205,000	-	-
2021	-	-	4.62	44,235	4.62	44,235	3.90	210,000	-	-
2022	-	-	4.62	46,336	4.62	46,336	3.95	220,000	-	-
2023	-	-	4.62	48,537	4.62	48,537	4.00	230,000	-	-
2024	-	-	4.62	50,843	4.62	50,843	4.05	240,000	-	-
2025	-	-	4.62	53,063	4.62	53,062	4.10	245,000	-	-
2026	-	-	-	-	-	-	4.125	255,000	-	-
		<u>\$ 345,000</u>		<u>\$ 664,851</u>		<u>\$ 664,850</u>		<u>\$ 3,500,000</u>		<u>\$ 400,000</u>
										<u>\$ 5,574,701</u>

URBAN RENEWAL TAX INCREMENT FINANCING (TIF)

Year Ending June 30,	Series 2004 Issued June 24, 2004		Series 2004 Issued June 24, 2004	
	Interest Rates	Amount	Interest Rates	Amount
2008	4.10%	\$ 51,835	4.10%	\$ 51,835
2009	4.10	53,960	4.10	53,960
		<u>\$ 105,795</u>		<u>\$ 105,795</u>
				<u>\$ 211,590</u>

See accompanying independent auditor's report.

CITY OF WAUKON

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

	Years ended June 30,			
	2007	2006	2005	2004
Receipts				
Property tax	\$ 931,811	\$ 853,693	\$ 617,949	\$ 812,094
Tax increment financing collections	452,561	448,923	653,627	589,101
Other city tax	350,641	286,452	326,091	301,291
Licenses and permits	11,301	14,683	8,126	19,143
Use of money and property	312,123	82,703	37,316	29,745
Intergovernmental	1,451,962	394,135	399,854	472,624
Charges for service	285,540	289,470	294,924	291,507
Special assessments	3,463	5,464	5,830	15,192
Miscellaneous	130,383	295,087	196,740	124,786
Total	<u>\$ 3,929,785</u>	<u>\$ 2,670,610</u>	<u>\$ 2,540,457</u>	<u>\$ 2,655,483</u>
Disbursements				
Operating				
Public safety	\$ 434,797	\$ 438,537	\$ 308,270	\$ 526,815
Public works	778,560	550,421	544,427	465,949
Health and social services	-	9,000	9,000	9,000
Culture and recreation	420,223	422,983	356,213	384,617
Community and economic development	49,349	44,269	43,574	60,595
General government	241,774	246,945	209,344	220,089
Debt service	452,906	377,036	189,716	737,950
Capital projects	3,206,539	1,607,830	1,470,751	709,056
Total	<u>\$ 5,584,148</u>	<u>\$ 3,697,021</u>	<u>\$ 3,131,295</u>	<u>\$ 3,114,071</u>

See accompanying independent auditor's report.

Hagen & Kallevang PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Waukon, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated February 27, 2008. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Waukon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Waukon's control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Waukon's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-07 and II-B-07 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Waukon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Waukon's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Waukon, and other parties to whom the City of Waukon may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Waukon during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Hagen & Kallwang, P.C.

February 27, 2008

CITY OF WAUKON
SCHEDULE OF FINDINGS
Year ended June 30, 2007

Part I: Summary of the Independent Auditor's Results

- a. An unqualified opinion was issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. A Single Audit was not necessary since Federal funds expended during the year were less than \$500,000.

Part II: Findings Related to the Financial Statements

Significant Deficiencies

II-A-07

Segregation of Duties - The City is not large enough to permit an adequate segregation of duties for an effective system of internal control. The concentration of closely related duties and responsibilities such as the handling of cash receipts and disbursements, recording of the cash transactions and preparing various reports by a small staff makes it impossible to establish an adequate system of automatic checks for good internal control. Also as a result, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

Recommendation - We realize this condition will be difficult to improve on. However, we do believe it is important that council be aware this condition does exist and make changes when appropriate and cost effective.

Response - The City continues to work on this.

Conclusion - Response accepted

II-B-07

Preparation of Financial Statements - The Mayor, Council members and management share the ultimate responsibility for the City's financial statements including the footnote disclosures and supplementary information even though Hagen and Kallevang, P.C. is engaged to assist with the preparation of them. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced. Also, Hagen and Kallevang, P.C. as the independent auditor cannot be considered part of the City's internal control system. The City has implemented procedures to prepare the financial statements and disclosures but has not initialized review aids, such as a disclosure checklist, and may not have monitored recent accounting developments to the extent necessary to provide a high level of assurance that financial statement omissions or other errors would be identified and corrected.

CITY OF WAUKON
SCHEDULE OF FINDINGS

Year ended June 30, 2007

Recommendation – We recommend that sufficient financial statement and disclosure review procedures be performed by an individual possessing a thorough understanding of the accounting principals applicable to the City's financial reporting. Also it's activities and operations. The individual can become knowledgeable through reading relevant accounting literature and attending professional education course.

Response - The City of Waukon will look into this recommendation and evaluate our staff as to performing these procedures and will also consider outsourcing.

Conclusion - Response accepted

II-C-07

Investment Income - The City opened a new back account to account for the transactions related to a capital project. However, the interest earned on the account did not get included in the monthly treasurer's report.

Recommendation - We recommend the interest earned be recorded in the monthly reports.

Response - The City is including the interest in the monthly reports.

Conclusion - Response accepted

II-D-07

Timely Deposits - Fees from use of camp grounds are not deposited timely.

Recommendation - We also recommend for better accountability and financial control, deposits need to be done timely.

Response - The City agrees with this recommendation and has informed the Park/Recreation Commission and management that deposits should be made daily.

Conclusion - Response accepted

II-E-07

Financial Reporting - During the audit, we noted the allocation of the utility tax replacement excise tax from property taxes was misposted. Adjustments were subsequently made by the City to properly report the amounts in the City's financial statements.

Recommendation - The City should implement procedures to ensure the allocation is properly recorded during the year.

Response - The City has implemented procedures through the budget process.

Conclusion - Response accepted

Instances of Non-Compliance
No matters were noted.

CITY OF WAUKON
SCHEDULE OF FINDINGS
Year ended June 30, 2007

Part III: Other Findings Related to Statutory Reporting

III-A-07

Certified Budget - Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.

III-B-07

Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

III-C-07

Travel Expense - No disbursements of money for travel expenses of spouses of officials or employees were noted. However, we did note a travel reimbursement to an employee included \$7.10 for alcoholic beverages.

Recommendation - The City should remind employees that they will not be reimbursed for such in the future. The employee should reimburse the City for the above amount. Also the Supervisors need to review reimbursement requests more closely for items not allowable.

Response - Supervisors have been told to remind employees that they will not be reimbursed for non-allowable items and will review more closely items before authorizing payments. The City has collected the \$7.10 from the employee.

Conclusion - Response accepted

III-D-07

Business Transactions - The following business transactions between the City and City officials or employees were noted:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Diane Sweeney, City Clerk Husband owns Sweeney Oil	Fuel & Oil	\$ 1,361
Ellen Krousie, employee	Honorarium	100
Chris Kerndt, employee	Honorarium	100

In accordance with Chapter 362.5(10) of the Code of Iowa the transactions with the related parties do not appear to represent a conflict of interest since total transactions with each were less than \$1,500 during the fiscal year.

III-E-07

Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

CITY OF WAUKON

SCHEDULE OF FINDINGS

Year ended June 30, 2007

III-F-07

Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not except for the purchase of a vehicle in the amount of \$19,800.

Recommendation - The City should ensure large purchases are authorized and documented as required.

Response - The City approves large purchases by Council motion at their meetings.

Conclusion - Response accepted

III-G-07

Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted except one time certificate was not earning the minimum interest rate.

Recommendation - Recommend the City contact the local bank and request the proper amount less what has already been received.

Response - The City contacted the bank and received the proper amount.

Conclusion - Response accepted

III-H-07

Revenue Bonds - The City was in compliance with its bond resolutions.